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STATE OF CONNECTICUT DEPARTMENT OF REVENUE SERVICES

IP 2002(25)

INFORMATIONAL PUBLICATION

Q & A on the Connecticut Use Tax for Businesses and Professions

Purpose: This Informational Publication discusses the Connecticut use tax and its application to businesses and answers commonly asked questions about the tax.

You must pay Connecticut use tax on taxable goods and services when a Connecticut retailer fails to collect Connecticut sales tax from you or when you purchase taxable goods or services (taxable provided the benefit of the services is received in Connecticut) for use in Connecticut from an out-of-state merchant that is not registered to collect Connecticut use tax. If you do not comply with the use tax provisions, you may owe tax plus penalties and interest.

1. What is the use tax?

Use tax is the tax you pay when Connecticut sales tax is not paid to a retailer. The use tax is complementary to the sales tax. Together, the sales and use taxes act to tax Connecticut purchasers equally, whether they purchase goods and services within or without Connecticut.

2. Who must pay use tax?

Anyone who purchases goods or services for use in Connecticut and does not pay Connecticut sales tax must pay the use tax.

3. On what kinds of goods or services must a business pay use tax?

As explained above, you must pay use tax on taxable goods, whether purchased or leased, and services. Examples of taxable tangible personal property include equipment, machines, furniture, instruments, appliances, computers, and computer software. Use tax also applies to the purchase of goods such as office supplies, paper, stationery items, certain publications, and books that are used by the business. Some taxable services include repair services to a motor vehicle or computer; janitorial services;

telephone answering services; business analysis services; and charges for access to on-line computer services. For a complete list of taxable services, see Conn. Gen. Stat. §12-407(2).

4. Are there exemptions from the use tax?

Yes. Generally, any purchase or lease of goods or services that is not subject to Connecticut sales tax if purchased in Connecticut is not subject to use tax.

5. What is the use tax rate?

In general, the use tax rate for purchases of taxable goods or services is 6%. However, the tax on some services is being phased out:

Computer and data processing services: The tax on computer and data processing is reduced to 1% from July 1, 2002, through June 30, 2004. These services are no longer taxable on or after July 1, 2004.

6. What if a Connecticut retailer does not collect tax on a sale of taxable goods or services?

If a Connecticut retailer does not collect tax on a sale of taxable goods and services, the business customer must report and pay the use tax. Businesses report use tax on **Form OS-114, Sales and Use Tax Return**.

7. How does a business that owes use tax remit the tax to DRS?

Businesses that make taxable purchases of goods, such as office furniture, computers, and supplies or services in connection with a trade, occupation, business or profession must report taxable purchases on **Form OS-114** for the monthly or quarterly period in which it made the taxable purchase.

8. What if a business buys taxable goods or services for its own use from an out-of-state mail-order company, television-shopping channel, or computerized shopping service and the retailer does not charge Connecticut tax?

If the business buys goods or services for use in Connecticut, it must report the use tax liability on **Form OS-114** for purchases made during the period.

9. What if the business buys taxable goods or services in another state and the retailer charges sales tax for the other state?

If the goods or services were purchased for use in Connecticut and the tax paid to the other state is less than the Connecticut tax, the business must report and pay the difference between the Connecticut tax and the tax paid to the other state. There is no credit given for tax paid to another state when that state's tax rate exceeds 6%.

Example: A business purchased a \$1,000 computer in another state, and paid \$50 ($\$1,000 \times 5\%$) tax to that state. If the business bought the computer for use in Connecticut, it owes Connecticut use tax. The Connecticut tax of \$60 ($\$1,000 \times 6\%$) is reduced to \$10, after allowing \$50 credit for the tax paid to the other state. If no tax was paid to the other state, the Connecticut use tax is \$60.

10. Can a business be registered just for business use tax?

Yes. A business that is not required to register to collect sales or use tax should still register to pay business use tax. If purchases are made in connection with a trade, occupation, business or profession, use **Form REG-1, Business Taxes Registration Application**, to register for business use tax. Report taxable purchases on **Form OS-114** for the reporting period in which the taxable purchase was made.

11. Can a Connecticut business use a resale certificate to purchase goods and services for use by the business?

No. A business can only use a resale certificate to purchase goods or services that are intended for resale in the regular course of business. Goods and services that are used in carrying on a business are consumed by the business and the tax must be reported and paid on them.

12. When may the use of a resale certificate result in a use tax liability for the business later?

Use of a resale certificate leads to a use tax liability later if:

- a. A business purchases inventory for resale and subsequently consumes or uses it in the business. For example, a computer distributor may take a computer from inventory to do billing for the business. The business owes use tax on the price it paid for the computer.
- b. A business takes items purchased for resale and subsequently gives them away in a promotion. For example, a distributor of office supplies may send out pens and pencils as part of its advertising. The business owes use tax on the price it paid for the pens and pencils.

Note: Any tangible personal property that a retailer purchases for resale is exempt from use tax if the retailer takes the property out of inventory and donates it to:

- The United States or its agencies;
 - Connecticut, its political subdivisions or their agencies; or
 - Any I.R.C. §501(c)(3) organization.
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13. What other common mistakes by a business leads to use tax liability?

The improper use of exemption certificates can lead to use tax liability. For example, non-manufacturing companies may **not** use manufacturer's exemption certificates to purchase machinery, materials, fuel, and tools. Likewise, nonprofit organizations may not purchase goods or services exempt from tax unless the goods or services are for the exclusive use of the organization.

In general, a contractor may not use a resale certificate to purchase goods and services used in fulfilling a construction contract. The lease of trucks, heavy equipment, and scaffolding, or the purchase of lumber, nails, tools, or security services are taxable to the contractor and may not be purchased with a resale certificate. The contractor owes use tax on the purchases and leases if no Connecticut sales tax was paid.

14. How does the Department of Revenue Services (DRS) find use tax liabilities?

DRS periodically audits businesses. In addition, Connecticut has reciprocal agreements with numerous states. These agreements enable Connecticut to obtain information on purchases subject to use tax and to share such information with other states.

15. What are the penalties and interest for not paying the use tax or for late payment of the use tax?

The penalty is 15% of the tax due or \$50 whichever is greater. Interest is charged at the rate of 1% per month from the due date of the tax return. There are also criminal sanctions for willful failure to file a tax return.

Effect on Other Documents: **Informational Publication 2001(15)**, *Q&A on the Connecticut Use Tax for Businesses and Professions*, is superseded and may not be relied upon after the issue date of this Informational Publication.

Effect of This Document: An Informational Publication is a document issued by DRS that addresses frequently asked questions about a current position, policy, or practice, usually in a less technical question and answer format.

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Sales and Use Tax
Individual Use Tax
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For Further Information: Please call DRS during business hours, 8:00 a.m. to 5:00 p.m., Monday through Friday:

- **1-800-382-9463** (in-state), or
- **860-297-5962** (from anywhere)

TTY, TDD, and Text Telephone users only may transmit inquiries 24 hours a day by calling 860-297-4911.

Forms and Publications: Forms and publications are available all day, seven days a week:

- **Internet:** Preview and download forms and publications from the DRS Web site: **www.drs.state.ct.us**
 - **DRS TAX-FAX:** Call **860-297-5698** from the handset attached to your fax machine and select from the menu.
 - **Telephone:** Call **860-297-4753** (from anywhere), or **1-800-382-9463** (in-state) and select **Option 2** from a touch-tone phone.
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Paperless Filing Methods (fast, easy, free, and confidential):

- **For business returns:** Use *Fast-File* to electronically file sales and use taxes, business use tax, room occupancy tax, or withholding tax returns over the internet or telephone. Visit the DRS Web site at: **www.drs.state.ct.us** and click on *Business Taxes Fast File Program*.
 - **For resident income tax returns:** Use *WebFile* to file personal income tax returns over the Internet. Visit the DRS Web site at: **www.drs.state.ct.us** and click on *Income Tax Web Filing*.
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